



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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December 17, 2010

TO: Supervisor Michael D. Antonovich, Mayor
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Don Knabe

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **FISCAL REVIEW OF CHILDS' HOMES FOR CHILDREN – A GROUP
HOME FOSTER CARE CONTRACTOR**

At the request of the Department of Children and Family Services (DCFS), we reviewed the fiscal operations of Childs' Homes for Children (Childs' or Agency) from January 1, through December 31, 2008. Childs' is licensed to operate two group homes (GH) each with a resident capacity of six children. Childs' is located in the Fifth Supervisorial District.

DCFS and the Probation Department (Probation) contract with Childs' to care for foster children placed in the Agency's homes. DCFS paid Childs' \$5,891 a month per child, based on a rate determined by the California Department of Social Services, for a total of \$758,310 during 2008.

The issuance of our report to your Board was delayed in part by changes in federal and State regulations regarding possible repayment of questioned costs from fiscal audits. To enable Childs' to begin taking corrective action immediately, we discussed the findings and recommendations from our review with Agency management and DCFS on July 16, 2009.

Summary of Findings

We identified \$4,045 in unallowable costs and \$2,786 in unsupported/inadequately supported costs. In addition, DCFS and the Agency need to work together to resolve and collect overpayments.

The Agency also needs to strengthen its controls over cash handling and disbursements. For example, we found that the Agency cashed 65 foster care warrants from the County, totaling \$157,160 and kept the funds in cash instead of depositing them into the Agency's bank account. Most of the purchases made with these funds should have been made using an Agency check. The Agency was able to provide adequate supporting documentation for the purchases. However, the Auditor-Controller Handbook requires that County warrants be deposited into an Agency bank account and expenditures be made by Agency check.

Childs' needs to strengthen its controls over payroll/personnel procedures and bank reconciliations and comply with State requirements regarding the independence of its Board of Directors. Details of our findings are discussed in the attached report.

The findings noted in this report are significant and Childs' needs to provide DCFS a corrective action plan to address the recommendations. Further, we have recommended that DCFS resolve the questioned costs and collect any disallowed amounts.

Review of Report

We discussed our findings with Childs' management and DCFS on July 16, 2009, but we were unable to issue our final report to your Board due to changes in federal and State regulations. The Agency will provide their response to DCFS who will prepare a Fiscal Corrective Action Plan and submit it directly to your Board. We thank Childs' management and staff for their cooperation during our review.

This audit is not intended to be, and does not constitute, the discovery or identification of an overpayment for purposes of the federal Improper Payments Act, related California State laws, including but not necessarily limited to Welfare and Institutions Code sections 11466.23, 11466.235, 11466.24, etc., nor State regulations intended to implement either the federal Improper Payments Act or related provisions in State law. This audit is intended solely to assist the County Department of Children and Family Services in managing its contractual relationships. Consequently, this report will be forwarded to the County Department of Children and Family Services in order that it might take further action, as it deems appropriate, based on its contents. Such further action may, or may not, include the discovery or identification of an overpayment for purposes of federal or State law.

Board of Supervisors
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Please call me if you have any questions, or your staff may contact Jim Schneiderman at (213) 253-0101.

WLW:MMO:JLS:MWM

Attachment

c: William T Fujioka, Chief Executive Officer
Antonia Jiménez, Interim Director, DCFS
Donald H. Blevins, Chief Probation Officer
Rufus Childs, Executive Director, Childs' Residential Care
Board of Directors, Childs' Residential Care
Cora Dixon, Bureau Chief, Foster Care Audits Bureau, CA Dept of Social Services
Commission for Children and Families
Public Information Office
Audit Committee

Childs' Homes for Children
Fiscal Review

REVIEW OF EXPENDITURES/REVENUES

We identified \$4,045 in unallowable costs and \$2,786 in unsupported/inadequately supported costs. In addition, DCFS and Childs' need to work together to resolve some potential overpayments. Details of these costs/overpayments are discussed below.

Applicable Regulations and Guidelines

Childs' Residential Care is required to operate its GH in accordance with the following federal, State and County regulations and guidelines:

- GH Contract, including the Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook)
- Federal Office of Management and Budget Circular A-122, Cost Principles for Non-Profit Organizations (Circular A-122)
- California Department of Social Services Manual of Policies and Procedures (CDSS-MPP)
- California Code of Regulations, Title 22 (Title 22)

Unallowable Costs

We identified \$4,045 in unallowable bank penalties for 157 NSF/Overdraft fees, ranging from \$25 to \$35 per check. A-C Handbook Section C.1.5 states that only expenditures that are necessary, proper and reasonable to carry out the purposes and activities of the program are allowable. In addition, Circular A-122 Section 16 states that fines and penalties are unallowable costs.

Unsupported/Inadequately Supported Costs

A-C Handbook Section A.3.2 states that all expenditures must be supported by original vouchers, invoices, receipts, canceled checks or other documentation. Unsupported expenditures will be disallowed upon audit.

We identified \$2,786 in GH expenditures that were either unsupported or were not adequately supported. Specifically:

- \$2,400 in unaccounted for cash withdrawals. The Agency made three cash withdrawals from their Bank of America checking account and could not provide

documentation showing that the funds were transferred to another Agency bank account or used for the group home program.

- \$386 for a Southwest Airline ticket. The Agency stated the ticket was a payroll advance for a new employee, but was unable to provide proof of a payroll deduction.

Recommendations

1. **DCFS management resolve the \$6,831 (\$4,045 + \$2,786) in unallowable and unsupported/inadequately supported expenditures and collect any disallowed amounts.**

Childs' management:

2. **Ensure that foster care monies are used for allowable expenditures to carry out the purpose and activities of the Agency.**
3. **Maintain adequate supporting documentation for all Agency expenditures, including original itemized invoices and receipts.**

Potential DCFS Overpayments

DCFS records show some potential overpayments made to the Agency. DCFS and Childs' should work together to resolve the overpayment, and DCFS should collect any verified overpayments. Childs' management should ensure that any future payment discrepancies are immediately reported to DCFS and any excess amounts are repaid promptly.

Recommendations

4. **DCFS work with Childs' to resolve the overpayments and collect any verified overpayments.**
5. **Childs' management ensure that any future payment discrepancies are immediately reported to DCFS and any excess amounts are repaid promptly.**

CONTRACT COMPLIANCE AND INTERNAL CONTROLS

We noted several contract compliance issues and internal control weaknesses. DCFS should ensure that Childs' management takes action to address each of the contract compliance and internal control recommendations in this report. DCFS should also monitor to ensure the actions result in permanent changes.

Accounting and Disbursements

We noted weaknesses in the Agency's accounting and disbursement procedures, as follows:

- The Agency issued 131 checks, totaling \$216,138, where the check signor and payee were the same. A-C Handbook Section B.2.1 requires a second signature on all checks, especially if the check signor is also the payee, to ensure only approved and necessary items are purchased.
- The Agency cashed 65 foster care warrants from the County, totaling \$157,160, and kept the funds in cash, instead of depositing them into the Agency's bank account. While the Agency had receipts for all \$157,160, the A-C Handbook requires that County warrants be deposited into an Agency bank account and expenditures be made by Agency check. The Handbook also requires that receipts of more than \$500 be deposited upon receipt.

Childs' management needs to immediately discontinue the practice of cashing County warrants and keeping the funds as cash. The Agency should establish a petty cash fund, as outlined in A-C Handbook Section B.2.3, for small, incidental expenses, and use checks, debit card, etc. for regular purchases. They should also consider enrolling in the County's direct deposit program.

Recommendations**Childs' management:**

6. **Require a second signature on all checks where the check signor and payee are the same.**
7. **Discontinue the practice of cashing foster care warrants and deposit all County warrants into an Agency bank account ,**
8. **Establish a petty cash fund for small incidental purchases.**
9. **Ensure all non-Petty Cash purchases are made by Agency check, debit card, etc.**
10. **Consider enrolling in the County's direct deposit program.**

Payroll/Personnel Controls

CDSS MPP Section 11-402 requires that supporting documentation be maintained for all program expenditures, including employee salary rates. In addition, A-C Handbook Section B.3.1 states that timecards or time reports must be signed by the employee and supervisor to certify the accuracy of the reported time.

We reviewed 12 employee personnel and salary records and noted the following:

- Nine (75%) employees' personnel files did not include current salary/pay rate information.
- One (8%) timecard was not signed by the employee.
- Two (17%) timecards were not signed by the supervisors.

Childs' needs to ensure the current pay rate is consistently maintained in the employees' personnel folder, and that all timecards are signed by the supervisor and employee.

Recommendations

Childs' management:

- 11. Ensure employees salary/pay rates are consistently documented and updated in the employees' personnel files.**
- 12. Ensure the timecards are signed by the employee and a supervisor to certify the accuracy of the reported time.**

Bank Reconciliations

A-C Handbook Section B.1.4 states that bank reconciliations should be prepared within 30 days of the bank statement date and be reviewed by management for appropriateness and accuracy. Both the preparer and the reviewer should sign and date the bank reconciliations. Childs' did not provide monthly bank reconciliations for our review. Agency management acknowledged that bank reconciliations were not prepared monthly.

Timely bank reconciliations are necessary to verify the accuracy of the Agency's accounting records and bank balances, as well as identify and investigate deposits that were not credited to the Agency's account and checks that have not cleared the bank within a reasonable period of time.

Recommendation

- 13. Childs' management ensure bank statement reconciliations are prepared within 30 days of the bank statement date and that the reconciliations are signed and dated by both the preparer and reviewer.**

Board of Directors Independence

California Corporations Code Section 5227 states that not more than 49% of the people serving on the Board of any corporation may be "interested persons." "Interested persons" include any person currently being compensated by the corporation for services rendered to it within the previous 12 months, whether as a full-time or part-time employee or independent contractor. Two (67%) of the three members of Childs' Board were compensated by the Agency. Specifically, one Board member worked as the Executive Officer and received an annual salary of \$55,000, and the Board Secretary received a one time payment of \$3,500 for Administrator duties during our review period. Childs' management needs to ensure the Board of Directors is organized in accordance with the California Corporations Code.

Recommendation

14. Childs' management ensure that the Board of Directors is independent as required by the California Corporations Code.